

A monthly review of Wisconsin government, taxes and public finance

The Wisconsin Taxpayer



McFarland High School

Aiding Wisconsin's Schools

The state provides two-thirds of state-local school revenues through various aids and property tax credits. In 2000-01, the state spent \$5,018 per student on school aids. Wisconsin now ranks above average nationally (24th) in state support of local schools.

As complex as it is controversial, state school aid has long been a central topic of discussion in Wisconsin. The distribution of school aids raises a host of issues relating to funding levels, local control, property tax relief and equity.

For the state, school aids are the single largest item in the tax-funded general purpose revenue (GPR) budget. They totalled \$4.4 billion, or 39.8%, of the state's GPR budget in 2000-01 (see chart on page 3). For all school districts, state aid averaged 51.7% of operating revenue in 2000-01. For some, it was much higher. For example, state aids were 73.6% of Royall School District's revenue. By contrast, just 3.6% of revenue in Linn J6 came from the state in 2000-01.

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State Share of Federal Dollars Rises
Tourism Spending Increases Modestly
Open Enrollment Program Expands
School District Revenue Limits

State Share of Federal Dollars Rises

Wisconsin's share of federal government expenditures in 2001 was 17.1% of the state's personal income, ranking it 40th among the states. Last year, the state was 43rd at 16.1% of income, according to the U.S. Census Bureau. Among Wisconsin's neighbors, Iowa ranked highest (25th) with federal dollars at 21.8% of income. Michigan was next at 39th and 17.5% of income, followed by Illinois (45th, 15.9%) and Minnesota (48th, 15.3%). New Mexico ranked first at 39.2% of personal income, followed by North Dakota (36.7%) and Mississippi (32.7%).

On a per capita basis, Wisconsin received \$4,968 in 2001, 49th nationally. Only Nevada (\$4,816) ranked lower. □

Tourism Spending Increases Modestly

Total tourism expenditures in Wisconsin rose 3.0% in 2001 to \$11.4 billion, according to the Wisconsin Department of Tourism. However, that increase was well below the 11.1% average annual increase from 1993 to 2000.

Less than half, or 46.5%, of estimated travel expenditures came from food, lodging and transportation. Shopping accounted for 28.5% of expenditures and recreation made up the other 24.9%.

Leisure travelers accounted for \$7.9 billion, or 69.8%, of total tourist spending in 2001. Of leisure travelers, visitors staying in hotels, motels, resorts or bed-and-breakfasts spent \$2.9 billion. Those staying in cabins, cottages or condos spent \$562.0 million. Campers spent \$604.6 million. □

Open Enrollment Program Expands

Participation in Wisconsin's interdistrict open enrollment program continued to expand in 2001-02 with 9,457 students participating. That was 2,244, or 31.1%, more than in the previous school year. However, it was only 1.1% of the state's public school students.

Wisconsin's open enrollment program allows public school students to attend school outside their home districts. According to a new Legislative Audit Bureau report, increases in participation over the first four years of the program (from 0.3% in 1998-99 to 1.1% in 2001-02) are similar to those in Minnesota, Iowa and Nebraska. After 13 years, participation in Minnesota's program was 3.3%. In Iowa, the rate was 3.7% after 11 years and Nebraska had 4.9% of its students participate after eight years.

The Drummond school district in Bayfield county was the only district without participants in the program in 2001-02. □

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Aiding Wisconsin's Schools

Continued from page 1

Clearly, state aid plays a major role in funding Wisconsin schools. It is, therefore, imperative to understand the factors and the formulas that determine its distribution.

STATE AIDS

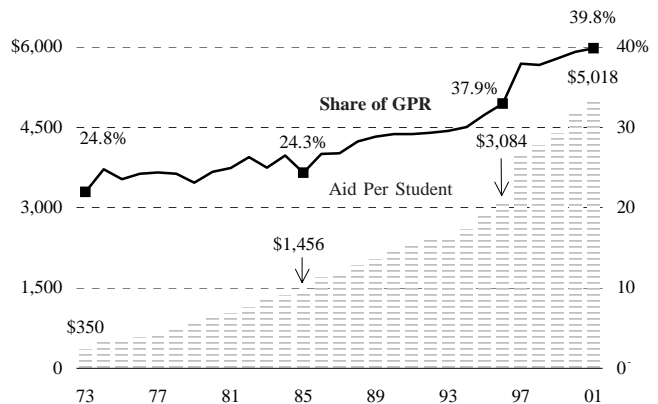
The legislature does not vote directly on the total amount of state education aid. Instead, statutes require the state to provide two-thirds of "partial school revenues." Partial school revenues are the total amount collected by local school districts, less federal monies, interest income and fee revenue.

The law mandates that the state fund two-thirds of this amount with a combination of state aids and property tax rebates for property owners. The Wisconsin Department of Public Instruction (DPI) estimated that, in 2001-02, state aids totalled \$4,613.3 million and the school property tax was \$469.3 million. The sum of these two was approximately two-thirds of the estimated \$7,645.8 million in partial school revenues.

Critics contend the state commitment to fund two-thirds of school revenues is misleading. Among the issues cited are: the use of partial revenues versus total revenues; and the treatment of property tax relief as funding for education.

Once total aid is set, state law prescribes how to distribute it among school districts. Four types of aid are used: categorical, integration, special adjustment and equalization. The total amount of categorical aid, integration aid and special adjustment aid is

Aid Per Student Rises, Takes Larger Share of Budget
State Aid Per Student and Aid Share of GPR Expenditures



calculated and dispersed first. The remaining dollars are used for equalization.

In 2000-01, state aid per student totalled \$5,018 (see chart above). That was 62.7% higher than the \$3,084 per student distributed in 1995-96, before the shift to two-thirds funding.

Categorical Aid

Categorical aid is the direct funding of specific school programs from the state level. Aid distribution is based on student criteria specific to each program. The state appropriates this money, and DPI administers the funds as grants. Among the programs funded are school lunch, driver's education and special education.

Because categorical aids are distributed based on specific student criteria, the state legislature has influence over how these dollars are spent. School administrators must

use categorical aids in ways that might not reflect their own priorities.

These programs are relatively small budget items—special education funding totalled \$315.6 million in 2000-01, but none of the remaining programs exceeded \$54 million. In all, 2000-01 categorical aids totalled \$531.4 million.

Integration Aid

Integration aid provides additional funds, based on a formula, to assist school districts with desegregation programs. State aid funds intradistrict and interdistrict student transfers. This aid program was begun in 1975 to help districts increase racial diversity.

Integration aid totalled \$84.3 million in 2000-01 and went to only 28 school districts in the state. Milwaukee Public Schools (MPS) received \$38.4 million, or 45.6% of the total.

Special Adjustment Aid

The state provides additional aid when a district's current aid is less than 85% of the prior year's amount. Special adjustment aid helps cushion falling state aid in declining-enrollment districts. Like integration aid, the amount is calculated by formula. In 2000-01, 17 districts shared \$1.7 million.

Equalization Aid

The balance of state aid dollars is used for equalization aid. In 2000-01, equalization aid totaled \$3.8 billion, or 88.0% of total state aids to school districts.

The primary goal of equalization aid is to equalize the per pupil property tax base. Equalization aid to local school districts is designed to ensure that differences in property tax rates primarily reflect differences in school district spending levels, rather than property values or student populations.

The Milwaukee Parental Choice Program is funded partially through reductions in aids

to MPS. Beginning in 2001-02, 45% of the \$59.4-million funding for the program came from reductions in MPS's equalization aids, and 55% from state GPR.

EQUALIZATION FORMULA

The state aid formula is tied to student numbers. Students are counted on a full-time equivalent (FTE) basis. A school district receives an amount of aid for each student in the district that depends on the district's property wealth and spending.

Several numbers are needed to calculate a district's aid, including property values, shared costs and guaranteed values.

Property Value Per Student

Within each district, the state calculates total equalized, or full, property values and divides that amount by the number of FTE students. Statewide, the average 2001-02 property value per student in K-12 districts was \$314,471.

All things being equal, a district with less property per student relative to another receives more state aid; a district with more property value per student receives less state aid. The aid formula is designed so that the same increase in spending in two districts results in approximately the same increase in property tax rates.

Shared Costs Per Student

A school district's shared costs are its total expenditures less state categorical aid, federal grants and other miscellaneous revenues. It is based on the previous year's figures. In Wisconsin's K-12 districts, average shared costs per student were \$7,575 for the 2001-02 school year.

The state aid formula has an equalizing effect on local spending. Depending on a school district's shared costs and property values per student, spending changes could

mean receiving more or less aid. In general, if a district is spending less than \$6,848 per student, more spending will be rewarded with more state aid. If a district spends more than this amount, it receives less state aid per additional dollar of shared costs.

Shared Cost Levels

The equalization formula breaks down a school district's shared costs into three levels. The state provides aid at different rates for each level of shared costs. More than 95% of districts receive aid at both the first and second levels; 243 are aided at all three.

Primary level aid helps fund the first \$1,000 in costs per pupil. The *secondary* level helps fund per pupil spending from \$1,000 to \$6,848, and the *tertiary* level aids remaining shared costs. The \$6,848 cost ceiling is adjusted for inflation each year.

The calculated aid at each level can be positive or negative depending on property values. If all three are negative, the school district receives no aid except for targeted categorical grants. Negative secondary or tertiary aids do not subtract from primary aid, but negative tertiary aid does subtract from positive secondary aid.

Guaranteed Values

Shared cost levels are used in conjunction with a "state-guaranteed property value per pupil" for each level. Within each level of shared costs, the state guarantees a certain property value per pupil.

The idea of state-guaranteed property value is complicated but critical to understanding the equalization aid formula. The concept is employed to disconnect local property values from the district's decision on how much to spend.

Without equalization aid, districts would have to set the local tax rate high enough to fund its costs from local property values. Districts with less property value per pupil

would need a higher tax rate to generate enough revenues to fund the same per student costs.

The primary goal of state equalization aid is to equalize each district's per pupil property tax base, not spending or tax levels.

With state equalization aid, the district can decide on the level of shared costs and set the local tax rate with respect to the state-guaranteed property value per pupil, instead of local property values. For districts under the state's guaranteed value, the resulting tax revenue does not cover the shared costs, but the shortfall is made up by state aid. Districts over the state's guaranteed value have negative aid at that shared cost level.

When state aid is added to local property taxes, total funding and the tax rate reflect the state-guaranteed property value, instead of the district's property values. Thus, the decision on spending is separate from local property values. For most districts receiving state aid, the same amount of spending can be funded with roughly the same tax rate, regardless of local property values.

Primary Aid

At the primary level, the state guarantees each school district \$2,000,000 of property value per pupil to fund the first \$1,000 of shared costs per pupil. Both numbers are set by statute. Beginning with the 2002-03 school year, the primary guarantee is reduced to \$1,930,000. The effect will be to reduce total primary aid and increase secondary aid.

The legislature has made special provisions to adequately fund union high schools (UHS) and K-8 districts. For K-8's, the guaranteed value is multiplied by a factor of 1.5; for UHS districts, the factor is 3.

Every district spends at least \$1,000 per pupil and all but three have less than the pri-

mary level guarantee in property value per pupil. These three, Gibraltar Area (K-12), Boulder Junction J1 (K-8) and Linn J4 (K-8), received no primary aid and, thus, no equalization aid. They are, however, eligible for categorical grants.

At this first level, changes in a district's property value per pupil do not significantly change the aid amount. While the average K-12 school district (\$7,575 in shared costs and \$314,471 in property value) received \$843 per pupil in 2001-02, a district with property values 50% lower received only 9.3% more. For the typical school district, primary aid was 18% of equalization aid.

Secondary Aid

For shared costs between \$1,000 and \$6,848 per pupil, the state guaranteed K-12 districts \$903,569 of property value per pupil in 2001-02 (\$1,355,353 for K-8 and \$2,710,707 for UHS). The average school district received \$3,813 per pupil in secondary aid. This was 81% of the average district's equalization aid.

The secondary level disburses the most funds, because it covers the most shared costs. The state guarantee is adjusted every year in order to spend all equalization funds that the first and third levels do not.

Seventeen districts that received primary level aid in 2001-02 did not receive secondary aid because their per pupil property values were more than the guarantee.

In contrast to the first level, second-level funds change more with shifts in property values. A school district with property values 50% lower than the average district and having similar spending would receive 27% more aid than the average district.

Although most districts in Wisconsin spend more than the \$6,848 secondary shared costs limit, those that do not tend to receive less secondary aid. If two school districts had

average property values, but one spent at the secondary limit of \$6,848, and the other spent 10% less, the lower-spending district would receive 11.7% less in secondary aid.

Tertiary Aid

The tertiary, or third, level helps fund shared costs per pupil over \$6,848. For these costs, the state guarantees K-12 districts \$325,154 in per pupil property value (1.5 times more for K-8 and 3 times more for UHS). This is set at the actual state average per pupil property value throughout the state, including K-8 and UHS districts.

Tertiary aids can add or subtract from secondary aids. Districts with above-average property values and shared costs over \$6,848 have money subtracted from their secondary aids. Districts with below-average property values and spending greater than \$6,848 have positive tertiary aid.

A district spending \$6,848 or less per pupil does not qualify for tertiary aid because it does not incur third-level costs.

Tertiary aid is much smaller than secondary aid, because it does not fund as many shared costs and because the state's property guarantee is near the actual property values of many districts. For example: two districts spend at the K-12 district average of \$7,575 per pupil. One has average property values and the other's values are 20% higher. The district with the lower property values would receive \$24 in tertiary aid, while the higher property-value district would lose \$117 per student.

If the two districts increased their spending 20%, the lower property-value district would receive an additional \$50 per pupil from the state, while the higher-value district would lose an additional \$243 per student because it has negative tertiary aid.

The chart on page 7 illustrates how these three levels of state aid work with local prop-

erty tax dollars to pay for a district’s shared costs. Both districts spend above the secondary cost ceiling of \$6848, but the district at the top (A) has property value per pupil 10% below average, while the district at the bottom (B) has 10% more.

At the primary level, the property-poor district is aided at 86% of costs, compared to 83% for the wealthier district. At the secondary level, 69% of the less wealthy district’s costs are aided, compared to 62%.

At the tertiary level (costs over \$6,848), the less-wealthy district is still aided, but only at 13%. The wealthier district loses aid. For every \$100 of costs over \$6,848, it loses \$6 of aid—it costs district taxpayers \$106 to fund an additional \$100 of spending.

DISTRICT TYPES

The shared cost levels and state property value guarantees define five types of districts. Looking at how the aid formula applies to these districts helps to understand how the formula distributes aid. In this section, K-8 and UHS districts *are* included in the district

counts, but *are not* included in the averages. Norris is not included in either.

- *Type 1: Property Wealthy Districts* are those with property values that exceed the primary guarantee (\$2 million per pupil for K-12 districts) and any level of shared costs (3 districts out of 425). These districts do not receive any equalization aid (see table on page 8).

- *Type 2: Property “Well-Off” Districts* have per pupil property values in excess of the secondary guarantee (\$903,569 for K-12’s) and any level of shared costs (17 districts).

These districts do not receive any secondary or tertiary aid, because their values are higher than the state guarantee for both of these levels. Because primary aid cannot be reduced by negative secondary or tertiary aid, they keep their first-level aid.

- *Type 3: Low-Spending Districts* have under \$6,848 shared costs per student and property values under the secondary guarantee (21 districts).

These districts receive no tertiary aid. However, because all but two have below-average property values, the state subsidizes their secondary shared costs at a higher level.

The average Type 3 district has a property value of \$266,678 per pupil and shared costs of \$6,634 per pupil. It receives 3.4% more aid than the average school district in the state, yet spends 12.4% less. On average, the state pays 73% of this district’s shared costs.

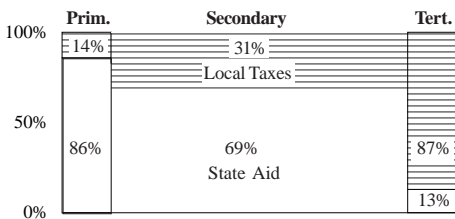
- *Type 4: Typical-Spending and Below-Average Property Value Districts* have shared costs above \$6,848 but less property value per pupil than average (243 districts).

These districts receive positive tertiary aid in addition to primary and secondary. Because the average K-12 district is close to the tertiary guarantee, it receives a small amount of tertiary aid.

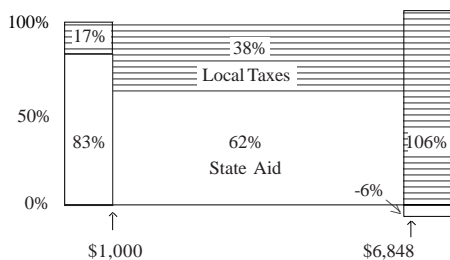
State Equalization Formula

Pct. of Shared Costs Paid by State, Local

A. District with eq. value per student 10% *below* state average



B. District with eq. value per student 10% *above* state average



While the average Type 4 district has per student property values 23% below average, it spends \$7,456 per pupil, only 1.6% less than the state average. For such a district, the state pays 71% of shared costs.

- *Type 5: Typical-Spending and Above-Average Property Value Districts* have shared costs above \$6,848 and property values between \$325,154 and the secondary guarantee (141 districts).

These districts receive positive secondary aid but negative tertiary aid—they are penalized for spending over \$6,848.

The average Type 5 district has a property value of \$433,562 per pupil and shared costs of \$7,856 per pupil. The state pays 44% of its shared costs.

Negative tertiary aid ensures that, despite these districts' relatively high property values, they cannot increase school spending without property tax rate increases similar to what the average district would incur. A district with a property value of \$433,562 but average shared costs would have the same tax rate as a district with a \$314,471 property value and average shared costs.

INCENTIVES

The equalization aid formula provides monetary incentives and disincentives for

some school districts to increase spending. District officials deciding on referenda look at the cost to local taxpayers of spending additional dollars. The percentage the state will pay is very important, yet very different, for the five types of school districts. This section considers the impact of a referendum to increase spending an additional \$100 per pupil in each type of district.

For districts with high property values (Type 1 and Type 2 districts), there are no state subsidies for additional school spending. Type 1 districts do not receive state equalization aid. Type 2 districts receive only primary aid, which does not respond to spending decisions, and cannot be reduced by negative secondary or tertiary aid. Local taxpayers in both types of districts would bear all of the increase in shared costs through property tax increases.

If Type 3 (low-spending) districts were to authorize more money for education, they would be subsidized by the state. If the average Type 3 district increased spending \$100 per student, state aid would account for \$70.50 and local property taxes would fund \$29.50 (see table below). This ratio would change considerably if shared costs exceeded \$6,848.

Type 4 districts have an incentive, albeit smaller than Type 3 districts, to increase spending. To raise an additional \$100, the

average Type 5 district must rely on property taxes for \$74.50, as the state will provide only \$25.50. These rates stay constant regardless of the total amount of spending.

The Type 5 district is the only

Equalization Aid by District Type
Average K-12 District in Each Category with Incentives for Additional \$100 in Spending

Type	Prop. Val.	Shared Costs	Equalization Aid				State Share	\$100 Add. Spend.	
			Prim.	Sec.	Ter.	Total		Dist. Pays	State Pays
Type 1	\$3,150,885	\$9,913	\$0	\$0	\$0	\$0	0.0%	\$100.00	\$0.00
Type 2	1,024,594	8,868	488	0	0	488	5.5	100.00	0.00
Type 3	266,678	6,634	867	3,971	0	4,838	72.9	29.50	70.50
Type 4	242,229	7,456	879	4,280	155	5,314	71.3	74.50	25.50
Type 5	433,562	7,856	783	3,042	-336	3,489	44.4	133.34	-33.34
State Avg.	\$314,471	\$7,575	\$843	\$3,813	\$24	\$4,679	61.8%	\$96.70	\$3.30

type to have a disincentive to increase spending. These districts would receive less state aid and would experience increases in local property tax bills if they increased shared costs.

To spend an extra \$100, the average Type 4 district would have to raise an additional \$133 from local taxpayers, because it would lose \$33 in secondary state aid.

Student Counts

In addition to providing incentives for local spending decisions, the equalization formula has incentives to increase student counts. By increasing the number of FTE students, districts can decrease their per student property values and possibly shared costs per student. Since the state counts full-day kindergartners at 1.0 students and half-day kindergartners at 0.5 students, districts may improve their aid status by moving to full-day kindergarten, or by adding four-year-old kindergarten.

There are educational pros and cons in the debate to lengthen kindergarten. All told, the state's school districts have responded to the economic incentives and policy debate by expanding kindergarten programs. In 1996, 60% of the districts offered only half-day kindergarten; in 2002, 12% offered only half-day kindergarten, while 63% offered only full-day kindergarten. The remaining 25% offered both. Between these years, the number of districts offering full-day kindergarten rose 118%.

1996-97 CHANGES

Changes to the equalization formula beginning with the 1996-97 school year significantly altered the distribution of state school aids. That year, state school aids increased \$872 million, or 39%.

The state moved from a two-tiered funding system to the current three-tiered system. Under the previous formula, 43 districts received no equalization aid. With the new formula, all districts received some aid in 1996-97.

Under the old formula, many property-poor districts were already being aided at high levels. When the school aid appropriation was dramatically increased, most of the new money had to go to districts with higher property values.

The table below shows how per student aids increased and property tax levies fell after the aid change. Districts with the highest per student property values received the most additional aid per student. The top 10% of districts averaged an additional \$1,219 per student in state aid. The next 10% received an additional \$1,265 per student.

Initial Year Aid and Property Tax Changes from 1996-97 Formula Revision
Deciles, Based on Equalized Value Per Student

K-12 Decile	E.V. Per Student	Aid Per Student				Property Tax Per Student				
		95-96	96-97	Change	%	95-96	96-97	Change	%	
1st	\$462,162	\$187	\$1,407	\$1,219	650.5%	\$6,832	\$6,088	-\$744	-10.9%	
2nd	314,496	1,748	3,013	1,265	72.4	4,621	3,813	-808	-17.5	
3rd	257,752	2,499	3,615	1,117	44.7	3,636	2,904	-732	-20.1	
4th	233,411	2,840	3,836	995	35.0	3,197	2,514	-683	-21.4	
5th	216,185	2,987	3,983	996	33.3	3,110	2,433	-678	-21.8	
6th	195,907	3,303	4,193	890	27.0	2,747	2,197	-549	-20.0	
7th	174,493	3,452	4,305	854	24.7	2,460	1,997	-463	-18.8	
8th	155,258	3,716	4,485	769	20.7	2,229	1,823	-406	-18.2	
9th	142,547	3,731	4,388	657	17.6	2,172	1,725	-447	-20.6	
10th	115,272	4,266	4,914	648	15.2	1,801	1,472	-328	-18.2	
Averages										
K-12	\$241,028	\$2,690	\$3,663	\$973	36.2%	\$3,487	\$2,866	-\$621	-17.8%	
K-8	1,309,968	989	2,078	1,089	110.1	6,469	5,859	-610	-9.4	
UHS	617,251	1,442	2,515	1,073	74.4	5,141	4,410	-731	-14.2	
State	263,164	2,639	3,615	976	37.0	3,564	2,941	-623	-17.5	

In dollar terms, property tax relief was also high in these districts. The per student levy fell \$744 in the wealthiest districts and \$808 in the next 10%. However, their percentage decline in property taxes was below average because state aids remained a below-average share of their revenues. These districts remained the highest property tax districts after the finance change.

Property-poor districts had much smaller aid increases and tax reductions in dollar terms. These were districts that were highly aided before the law change and had the lowest per student property taxes.

The K-8 and UHS districts experienced changes similar to the property-rich K-12's.

They had large aid increases, but smaller percentage declines in property tax because aids were a smaller share of revenues.

OTHER STATES

States vary in how they fund K-12 education. According to U.S. Census Bureau figures for 1999-2000, 4.6% of Wisconsin K-12 revenues came from the federal government (see table below), tying for 46th in the nation.

In Wisconsin, 57.7% of non-federal revenues was provided locally, which ranked 23rd nationally. Hawaii uses state dollars to fund nearly all (97.6%) of school districts' non-federal revenues. Of the surrounding four states, Michigan (69.3%) and Minnesota (62.8%) ranked higher than Wisconsin. Iowa (54.1%) and Illinois (40.0%) ranked lower.

States also use different combinations of categorical and formula (in Wisconsin, equalization) aids to fund local schools. In Wisconsin, 49.1% of non-federal revenues were funded through formula aids, which ranked 17th. In the state, 85% ($49.1\% \div 57.7\%$) of state dollars was equalization aids. That was 12th highest nationally.

While Minnesota ranked above Wisconsin in state share of non-federal revenues, it was below the state in formula aid dollars. In fact, only 61.1% of Minnesota state dollars came from formula aids, 39th nationally.

In contrast, Michigan was in the top ten in state share of non-federal revenues, while Iowa ranked 28th. Most of those dollars (85.2%, 11th nationally in Michigan; 91.0%, 7th in Iowa) come from formula aid. □

State and Federal Share of School Revenues

Selected States, 1999-2000 School Year

	Share of Non-Fed. Revenues					
	Fed. Aid Share		Formula Aids			
	Amt.	Rk.	State	Rk.	Aids	Rk.
U.S. Avg.	7.1%		53.6%		36.6%	
Hawaii	9.0	12	97.6	1	67.6	2
N. Mexico	13.5	2	82.9	2	74.3	1
Arkansas	9.0	12	82.4	3	56.0	7
Vermont	6.9	25	80.7	4	66.6	3
Delaware	6.5	30	71.3	5	49.6	15
N. Carolina	6.9	25	69.9	6	48.8	18
Alaska	15.2	1	69.5	7	58.1	5
Michigan	6.7	28	69.3	8	59.1	4
Washington	7.2	24	68.5	9	52.6	12
Alabama	8.7	15	67.4	10	56.0	9
Minnesota	4.6	46	62.8	19	38.4	30
Wisconsin	4.6	46	57.7	23	49.1	17
Iowa	5.9	37	54.1	28	49.2	16
Rhode Island	5.6	6	44.4	41	36.4	32
Massachusetts	5.1	5	44.0	42	31.5	40
Colorado	5.3	5	43.7	43	40.4	28
N. Jersey	3.8	4	41.9	44	22.0	46
Connecticut	4.0	4	41.4	45	19.7	48
Pennsylvania	6.3	6	40.4	46	24.2	43
Illinois	7.5	8	40.0	47	21.9	47
Maryland	5.5	6	40.0	48	22.4	45
S. Dakota	12.3	12	39.9	49	33.0	37
Nebraska	6.9	7	39.5	50	30.2	41

DATA SOURCE

Wisconsin Department of Public Instruction; Wisconsin Legislative Fiscal Bureau; and U.S. Census Bureau, National Center for Education Statistics.

School District Revenue Limits

Continued from back cover

While districts were allowed a \$226.68 per student increase in revenues in 2001-02, actual increases varied due to referenda, special provisions and enrollment changes. The revenue limit per 2001-02 student in Boulder Junction J1 rose \$2,248, or 21.9%. In Wonewoc-Union Center, the increase was \$1,697, or 25.4%. Both passed revenue limit referendum of nearly \$1,000 per student.

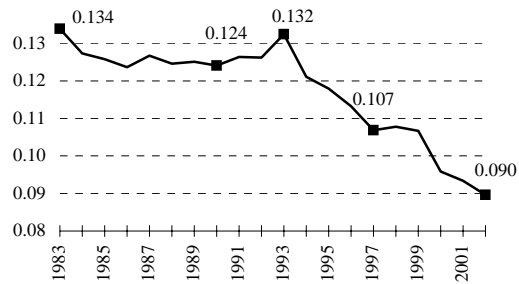
In 34 districts, the per student revenue limit fell. Norway J7 had a decline of \$1,047, or 12.3%, in its per student limit. Norway's decline was due mainly to the difference between actual enrollments and the three-year average used for the formula. In 2000-01, the formula student count was 116 (previous three-year average), but the actual 2000-01 count was 103. Thus, Norway had 12.6% more revenue per student in 2000-01 than if its actual student count had been 116. In 2001-02, the reverse happened when actual student counts were 116, three more than the formula number (113).

QEO. For revenue limits to be successful, state policymakers knew the growth of salaries and benefits also had to be slowed. Salaries and benefits are the largest school district costs. The state legislature allowed school districts to avoid compulsory arbitration by making a qualified economic offer (QEO) to local teachers' unions. This provision limits the total increase in salary and the cost of benefits to 3.8% per year. Similar limits were mandated for nonrepresented personnel (e.g., school administrators).

Spending Inequality. Critics of the state school finance system—revenue limits, the QEO and state equalization—cite spending

Inequality in School District Spending

Coefficient of Variation, 1982-83 - 2001-02
0 = Equal, 1 = Unequal



inequalities among districts as an indicator of a flawed system. What is not generally understood is that, since the school finance system was changed in 1994, inequality in school spending has fallen.

One measure of inequality (coefficient of variation) in per student spending is charted above. At its extremes, this measure moves from zero to one, with “zero” indicating every district spent the same amount per student and “one” representing extreme inequality. For school district spending within states, this measure typically ranges from 0.05 to 0.35.

In Wisconsin, spending inequalities have fallen significantly (32.3%) since 1993. The decline is due primarily to revenue limits. The per student revenue limit increase is a larger percentage increase for low-spending districts and a smaller percentage for high-spending districts. Thus, the percentage gap between these two types of districts falls.

A recent study reported similar numbers for the state. It calculated state-by-state instructional spending inequality from 1980 to 1994. Wisconsin's instructional spending inequality declined 26% during that time, but remained 21st lowest in the nation. □

School District Revenue Limits

The Wisconsin legislature imposed limits, beginning with the 1993-94 school year, on the amount of revenues school districts could raise from a combination of state aids and local property taxes. The limits were intended to slow the growth of school property taxes statewide to inflation plus enrollment changes. Also, because the state committed to funding two-thirds of school costs beginning in 1997, the limits also served to cushion the state budget from what might have been characterized as a “blank check” commitment.

Revenue limits apply to total state aid per pupil and local property tax revenue per pupil, which constitute more than 90% of the average district’s revenues. Like state aids, the limits are based on the number of students in the district. A three-year average of full-time equivalent (FTE) students is used for the calculation. Each year, the state determines the allowable per student increase, which is typically adjusted for inflation. For the 2001-02 school year, districts were allowed a \$226.68 per student increase over the previous year’s revenues. On average, that was a 3.1% increase.

There are exceptions to the law. In 2000-01, districts with under \$6,500 per pupil in state-local revenues were allowed to increase taxes to meet this floor, which is adjusted annually. Special provisions are also made for declining enrollment, lost federal aid, school district boundary changes and district consolidations.

The penalty for exceeding the revenue limit is a loss of state aid by the amount of the violation, including a loss of categorical aid, and possible intervention of the state superintendent to reduce the tax levy.

Districts have the ability to exceed revenue limits through approval by a majority vote at referendum. By December 2001, over 680 revenue-limit questions, totalling more than \$380 million had been put to referendum. Voters approved 288 of the questions, for a total of more than \$171 million.

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